



Eagle Ford operators look at the Austin Chalk

By Jennifer Hiller, San Antonio Express-News | October 30, 2015 | Updated: November 13, 2015 1:11pm

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Photo: Express-News File Photo

IMAGE 1 OF 3

The full moon rises above an oil drilling rig near Karnes City. Karnes County wells have the highest estimated ultimate recovery in the Eagle Ford.

Eagle Ford Shale companies are looking to an old friend — the Austin Chalk, the target of the last boom in South Texas.

From the late 1970s through the 1990s, the Austin Chalk was a bright spot in an otherwise depressed period for the oil and gas industry. Operators used what were relatively new horizontal drilling techniques at the time in the chalk, which overlays the Eagle Ford formation.

An advertisement for Thomas J. Henry, an injury attorney. It features a portrait of a man in a suit and tie. To the right of the portrait is a red circular logo with the text "INJURY ATTORNEYS AVAILABLE 24/7". Below the portrait and logo, the text "210-656-1000" and "TJHLAW.COM" are displayed. At the bottom, it says "San Antonio • Houston • Corpus Christi".

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Now that oil prices have been cut in half since last summer and are trading below \$50 per barrel, the Eagle Ford is contracting into the best-of-the-best parts of the field. Operators are looking for more oil a few hundred feet away from where they're already drilling — the chalk above, where wells can be drilled at less cost. They're also testing wells in the upper sections of the shale.

Several operators at last week's Hart Energy DUG Eagle Ford Conference in San Antonio talked about targeting the Austin Chalk or the upper Eagle Ford.

"The Austin Chalk is definitely a big part of our strategy going forward," said Glenn Hart, CEO and president of Laredo Energy.

Frank Lodzinski, CEO and president of Earthstone Energy, which operates in northern Gonzalez and Fayette counties, said that depending on the terms of the mineral lease, drilling and producing in the chalk can help a company "hold" the Eagle Ford below it until oil prices rise. Leases often require companies to start producing oil or gas within a few years, or the lease terminates.

"It's really a way for us to (hold by
production) as much acreage as we can over
the course of '16 and '17 and preserve a lot of the Eagle Ford and upper Eagle Ford," Lodzinski said.

It also can add to a company's oil reserves without the cost and expense of leasing more acreage.

But the line between the upper part of the Eagle Ford and the lower part of the Austin Chalk gets a bit fuzzy, Lodzinski said, and it's hard to know precisely which formation companies are drilling. In the western parts of the field, the Austin Chalk often gets defined as the upper part of the Eagle Ford. On the eastern side of the field, where there are thousands of chalk wells and a long history of drilling already, the chalk is its own formation.

Jeff Balmer, vice president and general manager for Encana Services Co.'s western operating area, said that most of its wells are drilled in the lower Eagle Ford, and the company makes around 57,000 barrels of oil equivalent per day, a measure that includes crude oil, condensate and natural gas.

But the company is looking beyond the lower Eagle Ford.

Encana just drilled two upper Eagle Ford tests, which it will bring online in early 2016.

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“There’s always the possibility of the Austin Chalk,” Balmer said.

Pioneer Natural Resources, too, said most of its wells have been drilled in the lower part of the Eagle Ford. But the upper Eagle Ford is prospective over much of its acreage, said Ken Sheffield, Pioneer Natural Resources’ executive vice president for South Texas operations.

“We’ve got a number of wells we’ll be drilling in the next few months,” Sheffield said. But he said the company wasn’t at the point where it could talk about results.

“It’s still early innings for us,” he said.

Pioneer has about 152,000 net acres in South Texas, where it has 344 employees and is one of the longtime operators in South Texas. It has six drilling rigs working in the Eagle Ford, all of them in Karnes and DeWitt counties.

Houston-based Sanchez Energy is drilling upper, lower and middle Eagle Ford wells.

“In some areas here, we have three unique, distinct reservoirs of Eagle Ford that are being developed,” said CEO Tony Sanchez III.

Jessica Garrison, upstream manager at Stratas Advisors, said the upper Eagle Ford is gaining more notice as operators try to figure out its productivity and potential.

But she also sees other potential for the next wave of Eagle Ford development. Karnes, Zavala, Dimmit, La Salle, McMullen and Atascosa counties will provide the best opportunities for operators, she said.

Karnes County is considered the heart of the field — it produces more oil than any other spot in Texas. In the Eagle Ford, its wells have the highest estimated ultimate recovery.

“All else being equal, this county can withstand prices dropping another 25 percent before the county as a whole does not show positive economics anymore,” Garrison said. “Dimmit is following close on the heels of Karnes County.”

Garrison said that after Karnes County, wells in Zavala and Dimmit counties have the next highest estimated ultimate recovery.

“This area could easily become another producing hot spot if market prices are kept in check and well costs decline,” Garrison said of Zavala County.

The economics remain challenging, though. Operators need to lower costs to around \$4 million per well or lower to make wells work in Zavala County, and the field average right now is about \$5 million per well, Garrison said.

The Eagle Ford has a reputation as the most profitable shale field, but hasn’t been immune from the current crash in oil prices.

“By the time 2015 is finished, we’ll see a 60 percent decline in drilling permits issued to drill holes in the Eagle Ford. Rig count, same story,” petroleum economist Karr Ingham said.

The rig count was 218 in the first week of November last year. Now, there are 75 drilling rigs in the field.

The bright spot? It’s taking far less time to get a drilling permit from the Texas Railroad Commission.

“What was taking three, four, five months to get approved last year in the early part of the year is now taking three, four, five days to get approved,” Ingham said. “So we’ve got that going for us, I suppose.”

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